

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

During the week of 9 – 13 August, growing concerns about fragile economic recovery, especially in the U.S., weakened global stock markets and major commodity markets. In turn, most African stock markets followed suit and closed the week with losses. The stock markets in Kenya, Nigeria and South Africa registered substantial losses of 3.8%, 3% and 2.7%, respectively, while marginal losses of between 0.1% and 1.2% were posted on the markets in Côte d'Ivoire, Egypt, Mauritius and Morocco. In contrast, the Ghana stock market registered a significant gain of 2.8%, followed by Uganda and Tunisia which registered minor gains of 0.7% and 0.3%, respectively.

Equity Focus

Kenya: The Nairobi Stock Exchange's NSE 20 Share Index fell by 3.8%, partially offsetting the earlier weekly gain of 5.3%. The fall was driven by profit taking by investors and shifts to the recently launched infrastructure bonds with an interest rate of 6%.

Ghana: The Ghana stock market's All Share Index rebounded by 2.8% from the previous week. The rally was fuelled by gains by the Ghana

Commercial Bank, Unilever Ghana (consumer goods), Fan Milk (dairy and fruit drink manufacturer), Enterprise Insurance Co., and SIC Insurance Co.

1.2 Commodity Markets

Crude Oil (Brent): The price of crude oil fell by 6.6% over the week to USD 75.40 a barrel. The fall was driven by the strengthening of the US dollar and the negative economic data reported, in particular from the United States and China, which revived investor concerns over a double dip recession.

Cocoa Beans: The price of cocoa beans fell (by 5.3%) for the second straight week, on prospects of rising supplies from Ghana.

Coffee: The price of Arabica coffee increased by 4.8% during the week, mainly driven by speculation that excess rainfall may hurt output in Colombia, the world's second-largest Arabica-bean producer after Brazil. Meanwhile, the price of Robusta coffee slightly rose by 0.6% over the week.

1.3 Exchange Rates

During the week under review, currencies in 8 countries recorded marginal appreciation against the USD of up to 0.77% in the case of the Tanzanian Shilling. About 42 countries registered some minor depreciation in their currencies – as much as 6.03% for the Gambian Dalasi. The CFA, which is pegged to the Euro, lost some 3% in value against the USD.

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“In Kenya, tourist arrivals rose to 483,000 in the first half of 2010, higher than the record 477,000 posted in 2007. In this regard, the Kenya Tourism Board assessed that Kenyan tourism had fully recovered from the global economic slowdown and is on a growth path.”

The resurgence of the USD was due to a number of factors including (i) the increase in the US retail sales in July accompanied by the return of US consumer confidence, (ii) the persistent concerns about the debt markets in the Euro zone and (iii) the shift towards profit taking after several weeks of Euro increases.

2. Regional Developments

West Africa: The outlook for cocoa production in West Africa has been improving. *Olam International*, one of the top buyers in the global cocoa trade, reported that early signs show 2010/11 may be a record harvest year for the world's largest cocoa producing region, West Africa. In Ghana, cocoa bean harvest for the 2010/11 season that starts in October 2010 is expected to rise by 23% from the year before. Similarly in Côte d'Ivoire, sunlight and rain have been favourable for the development of small cocoa pods. However, *Olam* warned that the long-term trend for declining supply from Africa had not been reversed because African cocoa trees, the majority of which are around 30 years old, have declined in productivity. Meanwhile, the President of Nigeria, Goodluck Ebele Jonathan, recently announced that his administration plans to boost the nation's economy and increase the GDP through cocoa production.

3. Countries in Focus

The DRC: The central bank of the Democratic Republic of Congo cut its benchmark interest rate to 22% from 29.5%. The benchmark rate has been cut five times since March 2010, when it stood at 70%.

Ethiopia: Inflation rate slowed to 5.7% in July 2010 from 7.3% percent in the previous month, due to easing food prices, which declined by 1.5%. Ethiopia was hit by soaring inflation in

2008 and much of 2009, driven by record global food and fuel prices.

The Government reported that Ethiopia may not need any food aid within five years thanks to an ambitious development plan that predicts a base-case scenario of 11% average annual real GDP growth and a high-case scenario of 14.9% average growth. Ethiopia hopes to exploit growing business ties with China, India and Turkey. It also strives to attract visitors from those countries to boost its largely untapped tourism sector.

Equatorial Guinea: The government expects oil production to increase by more than 100,000 barrels per day within two years as new offshore fields begin to operate. The country is already one of sub-Saharan Africa's largest oil suppliers with about 300,000 barrels per day, although production has been falling in recent years as existing fields mature.

Kenya: Tourist arrivals rose to 483,000 in the first half of 2010, higher than the record 477,000 posted in 2007. In this regard, the Kenya Tourism Board assessed that Kenyan tourism had fully recovered from the global economic slowdown and is on a growth path.

Kenya is holding back on plans to sell at least USD 500 million of sovereign bonds on international markets because recovery in the global economy is still too tentative. The Government has been working on the bond issuance to set a benchmark internationally so private players can access international debt markets to finance.

Mauritius: The Government plans to jointly finance a 12 billion rupee package (about USD 380 million) with the private sector and the Bank of Mauritius, targeting the textile, sugar and tourism industries. This is a second stimulus package to boost economic recovery, following the 10.4 billion rupee (about USD 330 million) program in December 2008. Mauritius' economic recovery has been slower than expected, with the euro zone crisis and the

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relative weakness of the euro against the Rupee adversely affecting tourism and exports.

Nigeria: The Government has withdrawn USD 3 billion from its windfall oil savings - USD 2 billion for the payment of July allocations to the three tiers of government and USD 1 billion to be set aside for a proposed sovereign wealth fund. The government reported that the Excess Crude Account (ECA), into which Nigeria saves oil revenues above a benchmark price, contained just USD 460 million after the latest withdrawal, down from around USD 20 billion in early 2007.

Tanzania: Inflation rate slowed to 6.3% in July 2010 from 7.2% in the previous month, driven by falling food costs. Inflation rate has been slowing across East Africa in the past few months after strong rains and government investments in agriculture boosted food production. In this light, analysts expect this downward trend of inflation to continue for some time.

Uganda: The Uganda Sugar Cane Technologists Association (USCTA) reported that sugar production fell below expectations in the first half of 2010 due to a prolonged drought last year and heavy rains earlier this year. Sugar cane output was 135,110 metric tonnes, compared to 148,358 tonnes in the same period last year. Nonetheless, USCTA still expected sugar production in 2010 to increase by almost 11% to 318,000 tonnes compared to last year, helped by improved cane supply and increased milling capacity.

4. Development Partnerships

Mozambique – EU: *Electricidade de Moçambique EP*, the state-owned electricity utility will receive a 45 million Euro loan from the European Investment Bank (EIB) to fund expansion of its power grid. The EIB announced earlier this year it would spend up to 104 million Euros to improve the electrical grid in Mozambique and increase access to power for households and businesses.

Gabon – India/Singapore: Gabon has signed USD 4.5 billion worth of deals with companies from India and Singapore in a bid to revamp infrastructure, improve living standards and diversify the economy of a nation with dwindling oil reserves. The deals include a series of development projects such as upgrading 1,000 km roads, developing timber and palm oil processing and building 5,000 low cost houses. The Government has committed to modernise and diversify the economy as reserves of oil, which still account for nearly half the government's receipts, start maturing.

Zambia - China: Zambia signed an agreement with two Chinese companies to build a 600 megawatts power plant, which is expected to cost USD 1.5 billion. China will provide the initial financing of USD 1 billion.

Zimbabwe - Sweden: Zimbabwe's *Econet Wireless* (Econet) has secured a USD 60 million loan from *EKN*, the Swedish governmental export credit agency to expand telecommunications infrastructure. *Econet*, Zimbabwe's largest telecommunications firm with over four million subscribers, reported that it plans to spend USD 300 million on its network this year.

5. Summary

During the week of 9-13 August, most African stock markets weakened, tracking the global markets which fell substantially on concerns about a double-dip recession. African governments are undertaking a range of measures to boost economic recovery, including: Nigeria planning to boost cocoa production, Gabon making efforts to diversify into new businesses like timber and palm oil processing, Mauritius providing a stimulus package for the tourism sector and key exporters, and Ethiopia focusing on agriculture and infrastructure to achieve high growth and food self-sufficiency. The infrastructure sector continued to attract much needed external financing, for such areas as electricity in Mozambique and telecommunications in Zimbabwe.

Appendix Table 1: Stock Market Movements – Week ending on 13 August, 2010

Stock Markets							
Region/Country	Index Name	Index Code	Market Capitalization (USD million) (13-08-2010)	Weekly % change (13-08-2010)		Year-to-date % Change	
				Week under review	Previous week	Dec 31 - Aug 13	
Côte d'Ivoire	BRVM Composite Index	BRVM CI	6,011	▼ -0.10	▲ 0.93	▲	16.3
Egypt*	CASE 30 Index	CASE30	17,854	▼ -1.15	▲ 1.43	▲	2.0
Ghana	Ghana All Share	GSE	12,609	▲ 2.78	▼ -2.19	▲	15.4
Kenya	Nairobi SE Index- NSE 20	NSE 20	14,262	▼ -3.83	▲ 5.31	▲	38.4
Mauritius	Mauritius AllShares	SEMDEX	5,003	▼ -0.80	▲ 1.57	▲	4.1
Morocco	Casa All Share Index	MASI	15,489	▼ -1.13	▼ -0.18	▲	11.3
Nigeria	NGSE All Share Index	NGSE	39,080	▼ -3.00	▼ -0.36	▲	20.1
South Africa	All Share Index	JALSH	616,080	▼ -2.67	▼ -0.26	▼	-0.5
Tunisia*	Tunis se Tnse Index STK	TUNINDEX	6,704	▲ 0.28	▲ 0.86	▲	21.0
Uganda*	Uganda SE All Share index	USE	4,562	▲ 0.73	▲ 2.23	▲	43.7
Others							
USA	Dow Jones Industrial	DJ Index	3,279,055	▼ -3.29	▲ 1.79	▼	-1.2
France	CAC 40 Index	CAC40	845,300	▼ -2.83	▲ 2.00	▼	-8.3
Japan	Nikkei 225 Index	N225	2,197,430	▼ -4.03	▲ 1.10	▼	-12.3

* Value at end of 12 August, 2010

Source: AfDB Statistics Department, August 2010.

Appendix Table 2: Exchange Rate Movements – Week ending on 13 August, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (13-08-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Aug 13			
Africa								
Algeria	Algerian Dinar	DZD	▼	-1.96	▲	0.67	▼	-2.9
Angola	New Kwanza	AON	▲	0.00	▲	0.00	▼	-3.7
Botswana	Pula	BWP	▼	-1.37	▲	0.92	▼	-2.3
Burundi	Burundi Franc	BIF	▼	-0.04	▲	0.14	▲	0.9
Cape Verde	Escudo	CVE	▼	-1.69	▲	1.37	▼	-12.6
Comoros	Comoros Franc	KMF	▼	-2.18	▲	0.48	▼	-10.3
Congo. Dem. Rep. of	Congolese Franc	CDF	▲	0.11	▼	-0.02	▼	-11.7
Djibouti	Djibouti Franc	DJF	▼	-0.01	▼	0.00	▼	-2.4
Egypt	Egyptian Pound	EGP	▼	-0.49	▲	0.46	▼	-3.8
Ethiopia	Birr	ETB	▼	-0.10	▼	-0.10	▼	-6.9
Gambia. The	Gambian Dalasi	GMD	▼	-6.03	▲	1.91	▼	-6.0
Ghana	New Cedi	GHS	▼	-0.31	▲	1.13	▲	0.1
Guinea	Guinea Franc	GNF	▼	-0.85	▼	-1.90	▼	-3.7
Kenya	Kenyan Shilling	KES	▼	-0.93	▲	0.56	▼	-5.7
Liberia	Liberian Dollar	LRD	▼	-0.68	▲	0.00	▼	-4.8
Libya	Libyan Dinar	LYD	▼	-0.51	▲	0.43	▼	-3.2
Madagascar	Ariary	MGA	▼	-0.49	▲	1.19	▼	-9.4
Malawi	Kwacha	MWK	▼	-0.02	▲	0.29	▼	-3.2
Mauritania	Ouguiya	MRO	▲	0.49	▼	-0.52	▼	-7.7
Mauritius	Mauritius Rupee	MUR	▼	-1.44	▲	2.36	▼	-0.6
Morocco	Dirham	MAD	▼	-1.81	▲	0.18	▼	-8.4
Mozambique	New Metical	MZN	▼	-2.12	▼	-0.54	▼	-27.2
Nigeria	Naira	NGN	▼	-0.22	▲	0.58	▲	0.5
Rwanda	Rwandan Franc	RWF	▲	0.54	▼	-0.80	▼	-2.6
São Tomé & Príncipe	Dobra	STD	▼	-2.16	▲	0.95	▼	-16.9
Seychelles	Seychelles Rupee	SCR	▼	-0.43	▼	-0.59	▼	-10.6
Sierra Leone	Leone	SLL	▼	-0.98	▼	-0.38	▼	-1.5
Somalia	Somali Shilling	SOS	▲	0.01	▼	-0.43	▼	-7.5
South Africa	Rand	ZAR	▼	-0.64	▲	0.92	▲	1.4
Sudan	Sudanese Pound	SDG	▲	0.45	▼	-0.17	▼	-1.6
Tanzania	Tanzanian Shilling	TZS	▲	0.77	▼	-0.27	▼	-11.2
Tunisia	Tunisian Dinar	TND	▼	-0.91	▲	0.41	▼	-9.3
Uganda	Uganda Shilling	UGX	▼	-0.35	▲	1.08	▼	-14.0
Zambia	Zambian Kwacha	ZMK	▼	-3.94	▲	0.56	▼	-7.5
CFA zone Countries	CFA Franc	XOF	▼	-2.99	▲	1.03	▼	-10.5
Others								
Europe	Euro	EUR	▼	-2.44	▲	0.83	▼	-10.3
Japan	Yen	JPY	▲	0.47	▲	1.18	▲	7.7

Source: AfDB Statistics Department, August 2010.